

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 900 - HB 1218**

March 21, 2021

**SUMMARY OF BILL:** Enacts the “New Markets Development Act” (Act). Creates a tax credit against taxes on gross premiums as established in Tenn. Code Ann. § 56-4-205 and a credit against the reciprocity tax as established in Tenn. Code Ann. § 56-4-218. Establishes parameters and requirements for receiving such credits. Applicants for these credits must submit a \$5,000 application to the Department of Revenue (DOR). Limits the tax credits awarded to a maximum of \$20,000,000 in any given year. Establishes DOR’s ability to recapture credits, and for examination, certification, and rulemaking. Establishes the qualifications for a qualified entity to receive federal matching under this program. Requires participating entities to file an annual report to DOR.

For purposes of promulgating rules and creating forms and applications, this act takes effect upon becoming a law. For all other purposes, this act takes effect January 1, 2022.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue –**

**\$155,000/FY21-22 and Subsequent Years/Department of Revenue**

**Decrease State Revenue –**

**\$20,000,000/FY21-22 and Subsequent Years/General Fund**

**Increase State Expenditures – \$155,000/FY21-22/Department of Revenue**

**Exceeds \$903,700/FY21-22/General Fund**

**Exceeds \$58,700/FY22-23 and Subsequent Years/  
Department of Revenue**

**Assumptions:**

- The taxes and reciprocal fines and fees that these credits apply to are collected and administered by the Department of Commerce and Insurance (DCI).
- According to page A-62 of the Governor’s Recommended Budget, an estimated \$1,074,700,000 will be collected from DCI in FY21-22, and according to DCI over \$1,000,000,000 is attributable to the tax established in Tenn. Code Ann. § 56-4-205, which was paid by 1,526 different insurance companies.
- The average tax liability per insurance company per year is estimated to be \$655,308 (\$1,000,000,000 / 1,526); therefore, an estimated 31 (\$20,000,000 / \$655,308) companies will have to apply for the total \$20,000,000 to be awarded.

- An estimated recurring increase in state revenue to the Department of Revenue of \$155,000 (\$5,000 x 31 entities) beginning in FY21-22 and a recurring decrease in state revenue of \$20,000,000 to the General Fund.
- It is assumed that the entirety of these credits will be used each year, beginning in FY21-22.
- DOR will experience significant systems and personnel costs to administer the credits laid out in the proposed legislation.
- DOR will need to hire at least one Tax Auditor 3 position at \$58,661 (\$44,520 salary + \$14,141 benefits) and will experience an increase in expenditures to update their systems of at least \$1,000,000 in FY21-22.
- Therefore, the increase in state expenditures to the in FY21-22 is estimated to exceed \$1,058,661 (\$1,000,000 + \$58,661) and \$58,661 in FY22-23 and subsequent years.
- It is reasonably assumed that the \$155,000 in fee revenue collected by DOR will be used towards expenditures to effectuate the purposes of this legislation; therefore, the total increase in state expenditures to the General Fund in FY21-22 is estimated to exceed \$903,661 (\$1,058,661 - \$155,000).

## **IMPACT TO COMMERCE:**

**Decrease Business Expenditures – Net impact –  
\$19,845,000/FY21-22 and Subsequent Years**

**Jobs impact – Not Significant**

Assumptions:

- The proposed legislation would decrease business expenditures on taxes by \$20,000,000, but would have an increase in expenditures of an estimated \$155,000 for applying for the tax credits.
- The net impact to business expenditures is therefore estimated to be a decrease in expenditures of \$19,845,000 in FY21-22 and subsequent years.
- Any impact to jobs is considered to be not significant.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

/aw